

Joint Economic Committee WEEKLY ECONOMIC DIGEST

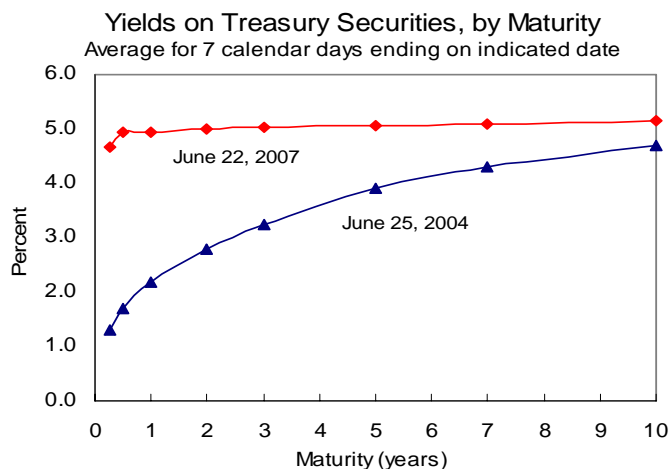
Senator Charles Schumer, Chairman
Congresswoman Carolyn Maloney, Vice Chair

June 25, 2007

ECONOMIC NEWS

New Homebuilding Dropped Last Month

New homebuilding declined in May. New construction of privately owned housing decreased by 2.1 percent last month to 1.474 million units at an annual rate. The number of new housing units started last month was 24.2 percent below the level a year earlier. While permits to build new homes rose by 3.0 percent in May, that was too little to fully reverse a 7.1 percent decline in April. Permits are 21.7 percent below last year's level, reflecting continued homebuilder pessimism.



Source: Board of Governors, Federal Reserve System.

Long-term interest rates retreated some last week but remain above short-term rates. The interest rate on 10-year Treasury notes closed last week at 5.14 percent. That was down somewhat from its peak of 5.26 percent 8 days earlier. Since May, long-term rates have risen to exceed short-term rates for the first time in over a year, though not by much. The spread between long-term and short-term interest rates has narrowed sharply since the Federal Reserve began raising short-term rates in June 2004 (see chart).

The Fed is not expected to change its interest rates target this week. The signals from important economic indicators have been mixed in recent weeks, with retail sales up, core inflation down, and new homebuilding still weak in May. Measures of economic slack such as the unemployment rate and factory operating rates have changed little in recent months. Markets expect that, at the conclusion of its two-day policy meeting on Thursday, the Federal Reserve will announce that it is not changing its target interest rate for federal funds. The Fed has kept its funds target at 5¼ percent since last June.

IN FOCUS

U.S. Is Falling Behind In Family-Friendly Policies

The United States lags far behind other industrialized countries in providing policies that help families balance the competing demands of work and family responsibilities. Women have entered the labor force in droves in the past several decades and Americans are working longer than workers in other countries. However, U.S. families have less public policy support than in other countries, such as paid leave for care-giving responsibilities, access to affordable, quality childcare, or flexible work schedules.

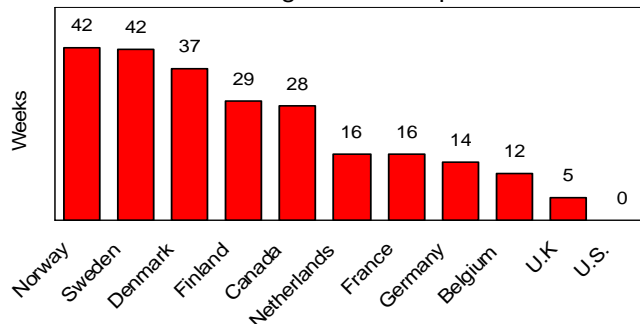
Future economic growth depends on a large and productive workforce. Work-family policies can help to maintain the size of the workforce despite retirement of the Baby Boom generation by encouraging women to enter and remain in the labor force. A new report by the Government Accountability Office found that workplace benefits such as paid family leave are positively associated with increased employment and workers' ability to stay in the labor force.

The Family Medical Leave Act, signed into law in 1993 by President Clinton, grants most workers job protection for unpaid leave to care for a new child or seriously ill family member. But the majority of U.S. workers cannot afford to forgo any pay when care giving needs arise. For most American families, it takes two incomes just to make ends meet in the face of stagnant wages and high costs for energy, child care, and health care.

Continued on reverse...

SNAPSHOT

Paid Family Leave Policies:
Fully Paid Weeks Allowed (for Mothers),
Following Birth or Adoption



Note: Includes national social insurance programs, earnings-related benefits only.

Source: Gornick, Janet C., and Macia K. Meyers. 2003. Families That Work: Policies for Reconciling Parenthood and Employment.

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THE WEEK AHEAD

DAY	RELEASE
Tuesday 26	New Residential Sales (May 2007)
Wednesday 27	Advance Report on Durable Goods Manufacturers' Shipments, Inventories and Orders (May 2007) JEC Hearing: "Investing in Young Children Pays Dividends: The Economic Case for Early Care and Education" 216 Hart Senate Office Building at 11 AM
Thursday 28	Gross Domestic Product and Corporate Profits (First quarter 2007, final) Federal Open Market Committee announcement on monetary policy
Friday 29	Personal Income and Outlays (May 2007); Construction Spending (May 2007)

*Thursday,
June 28th:
Fed statement
on monetary
policy*

THE ECONOMY AT A GLANCE

KEY INDICATORS	MONTH			QUARTER			YEAR	
	May	Apr	Mar	2007 Q1	2006 Q4	2006 Q3	2006	2005
Real GDP Growth (%)	—	—	—	0.6	2.5	2.0	3.3	3.2
Unemployment (% of labor force)	4.5	4.5	4.4	4.5	4.5	4.7	4.6	5.1
Labor Productivity Growth (%)	—	—	—	1.0	2.1	-0.5	1.6	2.1
Labor Compensation Growth (%)	—	—	—	3.2	3.6	3.6	3.1	3.3
CPI-U Inflation (%)	8.7	4.9	7.4	3.8	-2.1	3.1	3.2	3.4
Core CPI-U Inflation (%)	1.2	2.4	1.2	2.3	1.9	3.0	2.5	2.2

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of Labor Statistics, Department of Labor.

Notes: Except where otherwise noted, values in the table represent percent changes at seasonally adjusted annual rates. Productivity is output per hour worked in private nonfarm businesses. The Employment Cost Index is for civilian workers in government and business. Core CPI-U inflation is the percent change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The designation "n.a." denotes that data are not yet available.

IN FOCUS (Continued)

The United States is one of the only industrialized countries that does not offer paid family leave for new parents, including mothers (**see snapshot**). Unlike the United States, 145 other countries mandate paid sick leave for workers, including the twenty most competitive countries in the world. Additionally, most countries fund their paid family leave policies through a social insurance mechanism, minimizing the burden on individual employers.

Critics argue that implementing such policies here could have a negative impact on the economy, but research shows that strong work-family policies can improve overall productivity in the economy and enhance employers' profitability. Many countries with strong work-family policies are among the world's most competitive economies, have the highest GDP per-hour-worked and have unemployment rates that are the same or lower than in the U.S.

More and more, businesses are finding that doing right by workers is good for the bottom line. Family-friendly policies can assist with the recruitment and retention of a high-quality workforce, significantly reducing the high costs associated with employee turnover. Workplace changes that help families don't have to be costly. Perhaps the best example of this is the UK's policy granting workers the right to request a flexible schedule. Under this system, employers may refuse flexible schedule requests, but only a small percentage has been denied.

Paid parental and sick leave, flexible work scheduling and enhanced childcare access provide a boost to worker productivity, retention and recruitment that outweigh the costs of implementing such policies. U.S. workers, businesses, and the economy would benefit from stronger work-family policies.

For more information on this issue, see the June 14th Joint Economic Committee Hearing ["Importing Success: Why Work-Family Policies from Abroad Make Economic Sense for the U.S."](#)